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JORDAN

CASE STUDY

Guarantee Opens Access to Credit

Reducing a bank's risk exposure boosts economic development



Photo: Essa Dahdal

In Amman, Sreen Abu Saif runs a small web design and hosting business, Jordan e-Directory, which can now expand thanks to a USAID-backed loan project.

“Partnering with USAID gives us the confidence we need to expand our business lending services to Jordan’s small and medium enterprise sector,” said Mr. Mohammed Hamden, Bank of Jordan Assistant General Manager.

Challenge

Small and medium-sized companies represent close to 98 percent of Jordan’s businesses and contribute to the country’s economic growth by creating jobs and through investments and exports. Yet they have little access to investment capital, and this has been a serious impediment to their continued growth. Until recently, Jordan’s commercial banking industry was reluctant to extend capital to small and medium-sized companies due to their perception of the risk involved. Lenders imposed requirements that small companies could not satisfy, such as high collateral, multiple guarantors, and a well-established credit history.

Initiative

To help small companies gain access to much-needed investment capital, USAID designed a loan guarantee program to encourage new lending to these companies. USAID guarantees repayment of 50 percent of the total loan amount for all loans extended by the Bank of Jordan to qualifying companies. This guarantee complements other USAID programs in Jordan, including an effort facilitate links between small suppliers and large firms seeking to capitalize on Jordan’s free trade agreement with the U.S.

Results

The loan guarantee program is expected to generate \$5 million in private sector credit to Jordan’s small and medium-sized companies. USAID will share the risk associated with these loans with the Bank of Jordan. With reduced risk exposure, banks will be willing to give small companies the loans they need to grow. The project will show banks that many of Jordan’s small companies are financial viable and creditworthy, helping to create sustainable, market-driven financial tools that require no additional support from donors like USAID. As these companies gain credibility among the country’s banks, they will be able to return again and again to those banks for market-rate loans and financing. By placing its trust in these businesses, USAID is helping Jordan’s financial institutions actively contribute to the country’s development.

Telling Our Story

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